

## FX Daily: Kicking the tyres on the US disinflation trend

Today sees one of the key event risks of the week – the annual US CPI benchmarks revisions. The Fed’s current position is that it is looking for confidence in the disinflation process. Assuming the recent benign inflation trends are not revised away today, the dollar could edge a little lower



### 📌 USD: Was the late 2023 disinflation trend real?

As James Knightley discusses in his [preview of today's benchmark revisions](#), a similar exercise this time last year saw month-on-month inflation rates revised up towards the end of 2022, which meant that the three-month annualised rates for headline and core inflation were revised to 3.3% and 4.3% from 1.8% and 3.1%, respectively. Late year disinflation was thus revised away, causing the Federal Reserve to be a little more hawkish. Fed officials have said they will be looking out for these revisions today.

There is a case to be made that the market will move on today's benchmarks. Either an upward revision will prompt a modest back-up in short-term US rates and prove dollar supportive. Or no material revisions can provide the Fed with confidence that last year's disinflation trend was a true one – bolstering the soft-landing scenario and softening the dollar.

Given the market's conviction call for lower rates this year, risks to the dollar might be greater to the downside today. And this move could be backed up by contained January CPI readings next week, where we see headline at 0.2% MoM and core at 0.3%.

103.20 is the risk for DXY on a break back below 104.00.

*Chris Turner*

## ↑ EUR: Economists turn less pessimistic

In our latest [Monthly Economic Update](#), the ING economics team turns slightly less pessimistic and indeed is looking at reasons to be cheerful. On the eurozone side, in focus is the pick-up in German industrial orders and signs that German industrial weakness may be bottoming out. That feeds into the view that the European Central Bank will not be in a hurry to cut interest rates.

Indeed, it seems pretty clear now that the ECB will be waiting for European wage data statistics at the end of April before likely cutting rates in June. Expect ECB hawk Joachim Nagel to echo those thoughts when he speaks today.

EUR/USD today should be driven by the US CPI benchmarks revisions. Barring some aggressive upward revisions to the late 2022 numbers, we have a slight bias that this event risk is a bullish one and EUR/USD could end the week back above the 1.08 level.

*Chris Turner*

## ↓ CZK: Czech National Bank speeds up the cutting pace

The Czech National Bank has accelerated the pace of rate cutting to 50bp, which we assume will be the case for the next meetings as well. The central bank's new forecast shows a weaker economy and lower rates, while inflation is expected to return to the 2% target soon. However, the terminal rate may be higher than we thought. More details can be found in [our CNB review](#).

EUR/CZK moved slightly above 25.200 after the decision and press conference, which was our target for the 50bp rate-cut scenario from our CNB preview. However, we can expect that on Friday the rates will still look for their new levels, which may push EUR/CZK to 25.300. As we mentioned earlier, we believe the pair will peak soon. January inflation will be published next week, which we believe may be the last reason for rates to hit the limit of priced rate cuts at the short end of the curve. Moreover, we believe that the market positioning was already strongly short before the meeting. On the other hand, the situation in the economy should turn for the better, including a positive current account balance and a drop in rates abroad, supporting a stronger CZK. Therefore, we expect EUR/CZK to return below 25.000 later.

*Frantisek Taborsky*

## ↑ PLN: No rate cuts this year

Inflationary optimism has been swapped for scepticism. National Bank of Poland Governor Adam Glapiński sees a V-shaped inflation path with a high risk of an upswing in the second half of 2024. In his view, it is unlikely that a majority will emerge within the Council to change rates by end of the year. Markets price in sharp monetary policy easing. [We see](#) flat rates by the end of 2024.

Unsurprisingly, the market reacted with higher market rates, especially at the short end of the curve, which is positive news for the zloty. While positioning may once again hold back the gains, we remain positive as we mentioned here on Monday. For now, rates are pointing to levels around 4.310 EUR/PLN, but we can expect rates to rise further here, which could push EUR/PLN up to 4.300 today.

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